

Press Release

Smsea Marines Private Limited

July 20, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 13.50 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE BB**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 13.50 crore bank facilities of Smsea Marines Private Limited. The outlook is '**Stable**'.

Incorporated in 2012, Smsea Marines Private Limited (SMPL) is a Vishakhapatnam (Andhra Pradesh) based company which is promoted by Mr. S. Venkatesh and Mrs. S. Radha Rani. The company is engaged in procurement, processing, freezing, packing, storing and exporting of Sea caught fish and other marine products including white shrimp. The entity has a processing plant located at Vishakhapatnam with an installed capacity to process around 54 metric tonnes of raw materials per day.

Key Rating Drivers

Strengths

- Experienced management and improving revenue profile**

SMPL was incorporated in 2012. Mr. S. Venkatesh has more than two decades of experience in the sea food industry, while Mrs. S Radha Rani has a decade of experience in the sea food industry. Experience of the management has helped the company to grow over the years. SMPL commenced its operations in FY2016 with a revenue of Rs.16.74 crore at a low base, and revenues improved to about Rs.64.80 crore in FY2018 (Provisional) at a year-over-year growth of 49.6 percent. The growth is in line with India's growth in exports at about 42.5 percent during the same period. SMPL's major exports are to Vietnam, and India's exports to Vietnam is about 25 percent in FY2018 which grew at 63 percent in FY2018 over FY2017 at USD 1178.7 million. Acuité believes that SMPL will continue to enjoy the growth trajectory supported by healthy relations with the clientele and the healthy demand for fish and allied species from Vietnam and China

- Comfortable working capital management**

SMPL has comfortable working capital operations as evident from Gross Current Assets (GCA) days of 31 as on March 31, 2018 (Provisional) against 31 days as on March 31, 2017. The company's inventory days ranged from 12 to 15 days and debtor days ranged from 20 to 25 days during FY16-FY18. The company gives credit of up to a month to its customers. Comfortable working capital management helps in managing the business with minimal amount of working capital debt of about Rs.2.50 crore, and the bank lines are utilised at about 17 percent over six months through April 2018. Acuité believes that the working capital operations of the company will remain comfortable as evident from comfortable collection mechanism and comfortable inventory levels in the business.

- Moderate financial risk profile**

The financial risk profile is marked by moderate gearing and comfortable debt protection metrics though underpinned by low net worth levels. Gearing is moderate at 1.09 times (Provisional) as of March 31, 2018 as compared to 1.53 times as on March 31, 2017. Debt protection metrics of interest coverage ratio (ICR) is comfortable at 5.99 times for FY2018 (Provisional) and net cash accruals to total debt (NCA/TD) is moderate at 0.36 times for FY2018 (Provisional). The net worth stood at Rs.5.62 crore as on 31 March, 2018 (Provisional), improved by Rs.1.21 crore as compared to FY2017; it was mainly due to accretion of profit to internal accruals. Acuité believes that the financial risk profile is expected to be at similar levels over the medium term in the absence of major debt funded capex.

Weaknesses

- **Intense competition from domestic and international players**

The business is highly exposed to changes in the government policies in exporting countries and competitive pressure from domestic and international players. The sea food industry is also susceptible to diseases and climatic changes.

- **Lower realisation to impact profitability of exporters; weakening rupee to provide cushion**

Currently, realisation on export products is almost four times' domestic realisation because of significant difference in product baskets. In fiscal 2017, shrimps accounted for 38 percent of total volume and 65 percent of total value of exports, while fresh water catla, rohu and tuna dominated the domestic sales. The domestic market, estimated at Rs.950 billion in fiscal 2018, is highly unorganised and fragmented, which makes it intensely competitive and consequently a low-margin industry. The exports market, estimated at Rs.340 billion, is regulated and highly organised. In fiscal 2018, the average realisation for shrimps rose ~1 percent in dollar terms, but in rupee terms, it fell ~3 percent as the local currency appreciated. A decline in demand caused by excess supplies from the neighboring countries of Vietnam and Thailand and minor drop in demand in USA would lower dollar realisations by ~10 percent this fiscal, impacting the margins of exporters. In fiscal 2019, a 2 percent depreciation in the rupee and reduction in hatchery seed prices (which represent over 75 percent of revenue) will partially offset a fall in dollar realisations.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SMPL to arrive at this rating.

Outlook: Stable

Acuité believes that the outlook on Smsea Marines Private Limited will remain 'Stable' over the medium term on account of the experience of the promoters in the sea food industry and improving revenue profile. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenues while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle due to higher than expected inventory levels.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	43.32	16.74	0.00
EBITDA	Rs. Cr.	2.13	2.39	-0.21
PAT	Rs. Cr.	0.43	0.23	0.00
EBITDA Margin	(%)	4.92	14.28	0.00
PAT Margin	(%)	1.00	1.37	0.00
ROCE	(%)	10.29	13.18	0.01
Total Debt/Tangible Net Worth	Times	1.53	2.15	2.23
PBDIT/Interest	Times	3.80	2.04	0.00
Total Debt/PBDIT	Times	3.01	3.49	26487.46
Gross Current Assets (Days)	Days	31	69	0

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+

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About Acuité Ratings & Research:

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